THE COST OF PIT CLOSURES: SOME UNRESOLVED ISSUES

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Television and newspaper coverage of the coal dispute was extensive, but it is unlikely that the general public learned very much from the principal spokesmen (for either side) about the real problems involved in assessing the costs of pit closure.

Several interesting and highly competent studies were completed during the dispute*, some of which were commissioned as background papers for television programmes, but they appear to have had little effect on the nature of the public debate.

The studies presented widely differing estimates of the gains and costs likely to be occasioned by a closure programme. The study most favourable to the Coal Board's case estimated that there would be a net gain from closures by the second year, and that the gain would increase steadily in each succeeding year (with a six year time horizon). Closures envisaged would entail the loss of 20,000 jobs, and by the fifth year after the closures net gains would be more than £500m per year. The study most unfavourable to the Coal Board's case estimated that there would be **net losses** in **every** year of its seven year time horizon. On the basis of its calculations, the loss of 20,000 jobs, with the redundancy payments offered by the Board, would entail a net loss of two hundred and seventy million pounds in the first year, a loss in the next four years of approximately one hundred and ten million pounds per year, and an annual loss of seventy million pounds in subsequent years.

The principal value of these studies, however, lies less in the conclusions that were reached. than in the arguments which led to these conclusions and in the differing assumptions made about both the range and the magnitude of savings and costs involved in a closure programme. It is evident from an examination of these studies that there are significant unresolved questions concerning estimation of the real loss sustained by keeping the pits open and that there are equally contentious issues involved in estimating the total likely cost of a closure programme.

Reservations have been expressed by people of very different political persuasion about the adequacy of the National Coal Board's figures as a basis for decision-making. Doubts have been expressed on at least three major issues.

The first is that prices paid to the NCB for a substantial part of its output, and the prices paid by it for a not

*These include:
Gavyn Davies and David Metcalf, "Pit Closures: Some Economics", prepared for Weekend World;
Andrew Glyn, "Economic Aspects of the Coal Industry Dispute", prepared for the NUM;
Henley Centre for Forecasting, "The Cost of the 1984 Coal Industry Dispute", prepared for Newsnight;
Bill Robinson, "Economic Background to the Coal Dispute", **Economic Outlook**, LBS October 1984.
George Kerevan and Richard Saville, "The Economic Case for Deep-Mined Coal in Scotland", prepared for NUM, Scotland.

insignificant part of its inputs, are distincly arbitrary. There are disputes among experts about whether the price paid by the CEGB, the Coal Board's principal customer, is too high or too low. Andrew Glyn, of Corpus Christi College, Oxford, has argued that a more appropriate pricing policy for coal, in relation, for example, to the price that the CEGB pays for oil, would have provided additional revenue of more than £1,500 million in 1983/84. There are, on the other hand, several authorities who think that the CEGB is obliged to pay too high a price for the coal it buys. Some of these authorities base their argument on the (sometimes) lower price which could be paid for imported coal. It is undoubtedly true that there are times when the import price of coal is lower than the domestic price, but it varies a great deal with the changing value of sterling, and it is also subject to considerable variation as market conditions change.

There are also sharp differences of opinion about whether or not the terms on which capital is made available to the Coal Board have imposed an unduly high burden of interest charges on the industry, and there is some question about the appropriateness of the price paid to British Rail for transporting coal.

These are matters of serious contention among people knowledgeable of the industry. It is essential to recognise that these **are** contentious issues, and that it is unwise to treat estimates of performance based on artificial prices as though they provide a clear and accurate assessment of the economic cost of keeping pits open.

The second difficulty is that recorded losses include **substantial** payments in respect of **past** activities of the mining industry. There are, for example, significant costs with respect to compensation for subsidence and with respect to redundancy and pension payments to former employees. These are costs which would have to be borne even if every pit in the country were to be closed down, and they are not a relevant consideration in reviewing policy options.

Thirdly, the costs assigned to particular pits as operating costs include an assessment of their "share" of national and district overheads. In the event of closure of a particular pit these charges, which would be unlikely to be significantly reduced, would be re-assigned among the remaining pits.

There are, in short, grounds for serious reservation about the magnitude of savings that could realistically be expected from a closure programme. It may be the case that adequate treatment of these issues would strengthen the case for closure, but members of the public, as well as members of the NUM, deserve a clearer statement on these vital matters than they have so far received.

The direct costs of a closure programme (in contrast to the costs of maintaining pit in operation) include the costs of unemployment and supplementary benefit, as well as the cost of redundancy payments, together with transference and travelling costs for workers who move to another pit. There have been very large differences in the estimates offered (in various studies) of these costs. There are two major points of contention. The first is the length of time for which the men who lose their jobs will be unemployed themselves or, if they do obtain jobs, will simply displace other applicants for jobs who will, in turn, be unemployed for longer periods. Glyn, followed by Kerevan and Saville, argues that in present and foreseable circumstances the general level of unemployment will mean a virtually permanent increase in the level of unemployment. On the other hand, some of the studies have assumed that most of the workers will be able to find alternative employment within two or three years.

Craftsmen, such as electricians and joiners, may be in considerable demand, although they may well have to leave the communities in which they prefer to live, and may need a period of training to enable them to deal with the different requirements of work in another environment. It is, however, unlikely that the prospects for most workers are anything but bleak. In any event, a great deal more information is needed before one can make any realistic assessment of the cost to the public, to say nothing of the effect on the workers involved, of a large number of miners losing their jobs.

The other main point of contention is the likely secondary effect on employment. Reduced activity in the mines, particularly in regions which already have high unemployment, and little chance of obtaining a significant share of new investment in the mining industry, will lead to reduction in employment in firms which are supplying machinery and equipment for the mines. Moreover, the loss of income in the community will have multiplier effects, due to the reduced demand for goods and services. Some estimates indicate that the secondary loss of employment will be almost as high as the direct loss. Experience will no doubt differ greatly among different communities, but in some cases the cost to the public will be very high.

For some people (on both sides in the dispute) the strike might have been a predominantly political issue, but there were important economic issues involved. The economic questions, which have not been resolved, are not of mere academic interest, but involve serious dispute about costs to the general public of several hundred million pounds. Public discussion about what is to happen next in the coal mining industry is more likely to be constructive if some effort is made to examine the likely real consequences of policy decisions. The resources required substantially to increase our knowledge and to provide a basis for reasoned analysis would be very small compared to the damage that might be caused by decisions made in ignorance of the likely consequences.